

ORDER NO. 2741

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Tony Hammond, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Nanci E. Langley

Periodic Reporting
(Proposal Nine)

Docket No. RM2015-18

ORDER APPROVING ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING
(PROPOSAL NINE)

(Issued October 1, 2015)

I. INTRODUCTION

This Order addresses a Postal Service petition seeking approval to model explicitly the bottom-up costs of processing Carrier Route pallets (Proposal Nine).¹ The Petition was filed pursuant to 39 C.F.R. § 3050.11. For the reasons discussed below, the Commission approves Proposal Nine. This Order provides background information, describes Proposal Nine, addresses related filings, and presents the Commission's analysis and conclusion.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Nine), August 5, 2015 (Petition).

II. BACKGROUND

In the Fiscal Year (FY) 2014 Annual Compliance Determination, the Commission noted that most Outside County Periodicals volume is presorted to either 5-Digit or Carrier Route levels.² Carrier Route pallets are 5-Digit pallets containing only Carrier Route bundles. For periodicals destinating in non-Flats Sequencing System zones, presortation to the Carrier Route level minimizes the costs incurred by the Postal Service. *Id.* at 15-16. Observing the widening gap between passthroughs for 5-Digit and Carrier Route levels, the Commission urged the Postal Service to price periodicals more efficiently. *Id.*

On May 7, 2015, the Commission approved a new pallet price for Carrier Route presorted mail.³ The Commission observed that the Postal Service provided no cost estimate for the new Carrier Route pallet price as part of its filing or in its Periodicals Flats Mail Processing Cost Model (Periodicals Flats Model). *Id.* at 55. The Commission ordered the Postal Service to “file a proposed methodology for determining the bottom-up costs for the new Periodicals Mail Carrier Route bundle and container entry options, as described in the body of [Order No. 2472], within 90 days of the date of [Order No. 2472].” *Id.* at 63.

On August 5, 2015, the Postal Service filed a petition seeking initiation of a proceeding to consider Proposal Nine. *See generally* Petition. On August 11, 2015, the Commission issued Order No. 2655 establishing the instant docket for consideration of the Petition, designating a Public Representative to represent the interests of the general public, and establishing deadlines for filing comments and reply comments.⁴

² Docket No. ACR2014, Fiscal Year 2014 Annual Compliance Determination Report, March 27, 2015, at 15.

³ *See generally* Docket No. R2015-4, Order on Revised Price Adjustments for Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, May 7, 2015 (Order No. 2472).

⁴ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Nine), August 11, 2015 (Order No. 2655).

The Chairman issued, and the Postal Service responded to, two information requests.⁵ The Public Representative filed comments on September 10, 2015.⁶ The Postal Service filed reply comments on September 22, 2015.⁷ No additional comments were received.

III. PROPOSAL NINE

A. Summary

The Postal Service states that it processes Carrier Route pallets in the same manner as it processes 5-Digit pallets. Petition, Proposal Nine at 1-2. Accordingly, the Postal Service proposes no changes to the methodology used to estimate bottom-up costs. *Id.* at 2. Instead, the Postal Service asserts that Proposal Nine alters the model to identify explicitly the bottom-up costs of Carrier Route pallets. *Id.*

B. Current methodology

Currently, the Postal Service does not explicitly identify the costs of Carrier Route pallets in the Periodicals Flats Model. *Id.* at 1. In Docket No. R2015-4, the Commission approved the Postal Service's temporary use of the cost of 5-Digit pallets as a proxy for the cost of Carrier Route pallets and directed the Postal Service to develop a costing methodology for the Carrier Route pallets. Order No. 2472 at 54-55.

⁵ Chairman's Information Request No. 1, August 20, 2015; Chairman's Information Request No. 2, September 14, 2015; Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 1, August 27, 2015 (Response to CHIR No. 1); Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 2, September 21, 2015 (Response to CHIR No. 2).

⁶ Public Representative Comments on the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Nine), September 10, 2015 (PR Comments). The Public Representative also filed a motion for late acceptance of his comments. Motion of the Public Representative for Late Acceptance of Comments to Consider Proposed Changes in Analytical Principles (Proposal Nine), September 10, 2015 (Motion). The Motion is granted.

⁷ Reply Comments of the United States Postal Service Regarding Proposal Nine, September 22, 2015 (Reply Comments).

C. Proposed methodology

The Postal Service explains that when a Periodicals mailing has sufficient density to prepare 5-Digit pallets, the mailer presorts nearly all of the mail on the pallet into Carrier Route bundles. Petition, Proposal Nine at 1. The Postal Service represents that in FY 2014, only 0.5 percent of the mail on 5-Digit pallets was prepared in 5-Digit bundles. *Id.* The Postal Service states that any 5-Digit mail on these pallets generally consists of residual pieces for the few routes that lack sufficient density to qualify for Carrier Route prices. *Id.*

The Postal Service represents that for this reason it processes Carrier Route pallets identically to 5-Digit pallets. *Id.* at 1-2. The Postal Service explains that all pallets are cross-docked for transportation directly to the Destination Delivery Unit (DDU) for distribution of bundles to carriers. *Id.* at 2. The Postal Service states that the Carrier Route pallet price encourages mailers to prepare pallets containing only Carrier Route bundles and to move any residual 5-Digit bundles to containers that would be distributed in the plant. *Id.* The Postal Service represents this will enable it to process the residual 5-Digit bundles on the Automated Flats Sorting Machine 100, rather than processing those bundles manually. *Id.*

Thus, the Postal Service represents that the proposed changes to the Periodicals Flats Model merely identify costs explicitly. *Id.* Further, the Postal Service states that it has incorporated two modifications described in Section One of Proposal Seven,⁸ into the Periodicals Flats Model (proposed Modifications One and Nine). *Id.*

IV. COMMENTS/REPLY COMMENTS AND ADDITIONAL INFORMATION

A. Public Representative Comments

The Public Representative does not support Proposal Nine. PR Comments at 2. He states that the 5-Digit pallet cost estimate does not include the cost of working the

⁸ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), August 5, 2015 (Proposal Seven).

residual mail on 5-Digit pallets that was sorted in 5-Digit bundles rather than Carrier Route bundles. *Id.* In the calculations included with his comments, the Public Representative assumes that 5-Digit pallets containing residual 5-Digit bundles are not cross-docked and broken at the DDU, and instead are opened and processed at the Sectional Center Facility (SCF). *See id.* The Public Representative proposes to modify the 5-Digit pallet worksheet to account for the added cost of handling these residual 5-Digit bundles. *Id.* He estimates that working residual 5-Digit bundles entered on 5-Digit pallets at the DDU would increase 5-Digit pallet costs approximately 3.77 percent. *Id.* at 4. The Public Representative projects that working residual 5-Digit bundles entered on 5-Digit pallets at other entry points would increase 5-Digit pallet costs between 0.11 to 0.19 percent. *Id.* The Public Representative offers these projections to demonstrate that handling a small amount of residual 5-Digit bundles on 5-Digit pallets at the SCF would increase pallets costs and thus the Postal Service should account for the cost of handling these residual pieces. *Id.* at 2.

B. Postal Service Reply Comments

In response to the Public Representative's comments, the Postal Service asserts that the subset of 5-Digit pallets affected by the residual mail on 5-Digit pallets sorted in 5-Digit bundles rather than Carrier Route bundles is "virtually nonexistent" and that correcting the Periodicals Flats Model to include such flows would have "virtually no effect on measured costs." Reply Comments at 1.

First, the Postal Service clarifies that there are three subsets of 5-Digit pallets: (1) Carrier Route pallets—containing only Carrier Route bundles; (2) 5-Digit Presort pallets—containing only 5-Digit bundles; and (3) 5-Digit Merged pallets—containing principally Carrier Route bundles with no more than 5 percent of the contents being residual 5-Digit bundles. *Id.* at 1-2. Although 0.5 percent of the pieces on all 5-Digit pallets are in 5-Digit bundles, the Postal Service represents that most of the residual 5-Digit pieces are on 5-Digit Merged pallets, rather than 5-Digit Presort pallets. *Id.* at 2. The Postal Service explains that most 5-Digit pallets are comprised of, exclusively or

primarily, Carrier Route bundles rather than 5-Digit bundles. *Id.* The Postal Service observes that 5-Digit Presort pallets are extremely rare and comprised only approximately 0.03 percent of all 5-Digit pallets during the second quarter of FY 2015. *Id.* at 2-3.

Second, the Postal Service counters that the Public Representative does not correctly model the slight effects caused by any variations between the actual and the model's accounts for handling of this subset of 5-Digit pallets. *Id.* at 1. The Postal Service attaches an Excel workbook correcting the model to explicitly identify 5-Digit Presort pallets; this changes the modeled costs of 5-Digit pallets by amounts ranging from zero to 0.033 percent. *Id.* at 3. Overall, the Postal Service represents that such "rare occurrences would have virtually no effect on measured costs, and their inclusion would unnecessarily complicate an already complicated model." *Id.* at 1.

C. Postal Service Responses to Chairman's Information Requests

In response to Chairman's Information Request No. 1, the Postal Service clarifies that the Periodicals Flats Model does not use 5-Digit bundle costs as a proxy for Carrier Route bundle costs. Response to CHIR No. 1, question 1c. The Postal Service explains that it processes bundles arriving on 5-Digit pallets identically to bundles arriving on Carrier Route pallets. *Id.* After the pallet is opened, the Postal Service sorts the bundles manually one time—either to the carrier (for Carrier Route bundles) or to incoming secondary sortation (for 5-Digit bundles). *Id.* The Postal Service explains that although piece distribution costs will differ, bundle costs will not differ because the transportation costs for 5-Digit and Carrier Route bundles will be the same. *Id.*

In response to Chairman's Information Request No. 2, the Postal Service states that the current methodology does not model piece distribution costs by container type, container level, and bundle level explicitly. Response to CHIR No. 2, question 1. Instead, the Postal Service describes that current methodology models the aggregate behavior, across container type and container level, using characteristics of pieces by bundle level. *Id.* The Postal Service represents that 5-Digit pieces entered on 5-Digit

pallets constitute 0.2 percent of pieces in 5-Digit bundles. *Id.* The Postal Service also identifies how the methodology accounts for the estimated proportion of residual pieces on 5-Digit pallets that undergo manual processing. *Id.*

V. COMMISSION ANALYSIS

Accepted analytical principles may be changed to improve the quality, accuracy, or completeness of the Postal Service data or analysis underlying the Annual Compliance Report (ACR). See 39 C.F.R. § 3050.11(a). Based upon a review of the Postal Service's filing, supporting workpapers, responses to information requests, and the comments, the Commission finds that Proposal Nine improves the completeness of the Postal Service's data and analysis by explicitly matching costs to prices for Carrier Route pallets and bundles. Moreover, this breakdown will facilitate the Commission's determination as to whether the Postal Service's workshare discounts for Carrier Route pallets and bundles comply with 39 U.S.C. § 3622(e) and Commission regulations. For these reasons, the Commission approves the Postal Service's proposal to identify explicitly the costs of processing Carrier Route pallets.

As to the Postal Service's proposed method to model costs, the Commission accepts the Postal Service's representation that Carrier Route pallets are cross-docked to the DDU. The Commission also accepts the Postal Service's representation that, under current practice, all 5-Digit pallets are cross-docked to the DDU. As mailers take advantage of the Carrier Route pallet price by transitioning their Carrier Route bundles from 5-Digit Merged pallets to Carrier Route pallets, mailers may also increase the percent of 5-Digit Presort pallets that contain primarily 5-Digit bundles. However, the purpose of this model is to represent processing activities as they occurred in FY 2014, during which 5-Digit Presort pallets were cross-docked to the DDU.

Thus, the Commission accepts the Postal Service's proposal, which explicitly models the costs of handling Carrier Route pallets. The Commission directs the Postal Service, as part of its FY 2015 ACR, to report the percentage of 5-Digit pallets that contained primarily 5-Digit bundles for each quarter of FY 2015. The Commission also

directs the Postal Service to include a narrative detailing whether mail processing facilities have altered their procedures for 5-Digit pallets following the implementation of Carrier Route pallet prices.

This Order does not address proposed Modifications One and Nine. The Commission will address those proposed changes in Docket No. RM2015-16.

VI. ORDERING PARAGRAPHS

It is ordered:

1. For purposes of periodic reporting to the Commission, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposal Nine.
2. In the FY 2015 ACR, the Postal Service is to provide the additional information described in the body of this Order.
3. The Commission defers its analysis of proposed Modifications One and Nine to its final order in Docket No. RM2015-16.

By the Commission.

Ruth Ann Abrams
Acting Secretary